Dallah Healthcare Holding Co

4Q2018 Results Review

26 February 2019

السعودي الفرنسي كابيتال
Saudi Fransi Capital

Margin Compression Drives Earnings Miss

SAR 80 — 12-Month Target price

Hold — Recommendation

Dallah announced disappointing end to a challenging 2018 with -49% Y/Y EPS decline to SAR 0.55, widely missing our SAR 0.88 estimate. While revenues were inline, preliminary results suggest dramatic escalation in personnel costs, severely compressing margins. We believe most of the challenges of 2018 will persist through the next 4 quarters, unless MoH privatization suddenly accelerates. YTD shares have bounced nearly +21% and could see further gains as foreign investors add Saudi equities. Maintain Hold and SAR 80 target price, representing 22x 2019E EV/EBITDA. We highlight that KSA healthcare is trading at a discount EV/EBITDA to EM peers (14.8x vs 15.2x) – a rarity on this market and historical context.

Revenue slides on weak patient numbers

Revenues of SAR 318 mln (-2% Y/Y) met our forecast and topped consensus SAR 297 mln. We expected Namar to see improved patient figures as Dallah signed several insurance clients (Bupa, Tawuniya and Rajhi), supplementing cash customers. However, patient numbers at Nakheel moderated due to departing foreign workers and families. In 2017, Dallah served some 1,113k outpatients and 42k inpatients, while through 9M18, OP declined -1.1% (781k) and IP dropped -6.7% (28k). For F2019, we are projecting +3.8% revenue growth as Namar continues to ramp-up and patients at Nakheel stabilize.

Gross margin suffers from rising personnel costs

Gross margin sharply contracted to 35% from 48% in year ago period on foreign worker fees (likely backloaded) and increased utilization of outsourced personnel (both medical and non-medical). We project margins stabilizing in the mid-30% neighborhood, as 20% Namar discounts dilute overall pricing strategy. Key unknown at this point, in our view, remains pricing at Nakheel if patient traffic continues to moderate.

Similar challenges to persist in 2019

Operating income declined -55% Y/Y to SAR 34 mln on slightly higher than expected opex. Meanwhile net income declined -49% Y/Y to SAR 33 mln, widely missing our and consensus forecast. Aside from improved Namar metrics, we see most of the headwinds from 2018 to persist into 2019, including low pricing power, increased capacity and rising costs. Key catalyst will be M&A activity as sector challenges pressure weaker providers. Further, we sense higher urgency towards privatization and sector reforms. Our channel checks indicate that corporatization of MoH assets is progressing.

Cash dividend cut but bonus shares to supplement

Cash DPS for F2018 was cut to SAR 1.50 from SAR 2.50 in prior year, however planned capital increase to SAR 750 mln from SAR 590 mln, will supplement with bonus shares.

SAR mln	4Q18	4Q18E	4Q17	*Y/Y Chg*	3Q18	*Q/Q Chg*	*Variance*	Consensus
Sales	318	317	326	*-2%*	281	*13%*	*0%*	297
Gross profit	111	127	148	*-25%*	101	*9%*	*-13%*	
Gross margin	*35%*	*40%*	*45%*		*36%*			
Operating profit	34	53	75	*-55%*	33	*1%*	*-36%*	36
Operating margin	*11%*	*17%*	*23%*		*12%*			*12%*
Net income	33	52	63	*-49%*	32	*0%*	*-37%*	38
Net margin	*10%*	*16%*	*19%*		*12%*			*13%*
EPS (SAR)	0.55	0.88	1.07	*-49%*	0.55	*0%*	*-37%*	0.64

Stock Details

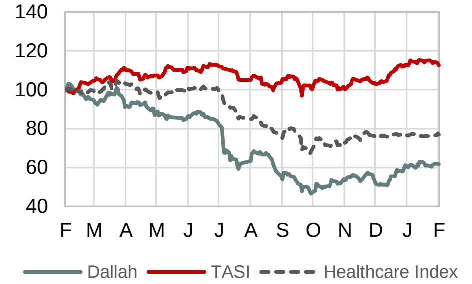
Last Close Price	SAR	67.70
Upside to target	%	18.2
Market Capitalization	SAR mln	3,994
Shares Outstanding	mln	59
52-Week High – Low	SAR	113.60 – 50.10
Price Change (YTD)	%	20.5
3-Mth ADTV	thd	187
EBITDA 2019E	SAR mln	245
Reuters / Bloomberg	4004.SE	DALLAH AB

SAR mln	2018	2019E	2020E
Revenues	1,181	1,226	1,266
Gross Margin	*37%*	*38%*	*37%*
EBIT	146	159	165
Operating Margin	*12%*	*13%*	*13%*
Net Income	142	147	149
Net Margin	*12%*	*12%*	*12%*
EPS (SAR)	2.40	2.49	2.53
DPS (SAR)	1.50	1.50	1.50

Price Multiples

	2018	2019E	2020E
P / E	28.2x	27.2x	26.7x
EV / EBITDA	21.5x	19.1x	18.0x
P / S	3.4x	3.3x	3.2x
P / B	2.4x	2.3x	2.2x

1-Year Share Performance (rebased)



Source: Bloomberg, Tadawul, SFC

Asim Bukhtiar, CFA
abukhtiar@fransicapital.com.sa
+966 11 282 6844

Research and Advisory Department

Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

Saudi Fransi Capital

Call Center | 800 125 9999

www.sfc.sa

Commercial Registration | 1010231217

Research and Advisory

P.O. Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

research&advisory@fransicapital.com.sa

Disclaimer

This report is prepared by Saudi Fransi Capital ("SFC"), a fully-fledged investment firm licensed by the Capital Market Authority (CMA) to provide investment banking, asset management, securities brokerage, research, and custody services. SFC, and its affiliate, might conduct business relationships with the company that is subject of this report and/ or own its security.

This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report.

This report is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This report is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report is not intended to take into account any investment suitability needs of the recipient. In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this report. SFC strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this report take into account both risk and expected return.

To the maximum extent permitted by applicable law and regulation, SFC shall not be liable for any loss that may arise from the use of this report or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized. All opinions and estimates included in this report constitute SFC's judgment as of the date of production of this report, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than what he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this report may be reproduced without the written permission of SFC. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Saudi Fransi Capital (Closed Joint Stock Company owned by Banque Saudi Fransi)
C.R. 1010231217
Paid Up Capital 500,000,000 SR – Capital Market Authority 11153-37
Head Office
8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia
Mailing Address:
P.O Box 23454
Riyadh 11426
Tel: +966 11 282 6666 | Fax: +966 11 282 6667
800 124 3232 | www.sfc.sa